



EU sustainability reporting rules and municipal governance

How recent EU sustainability changes affect municipal reporting and decision-making

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Core message

The EU changed corporate sustainability reporting rules in recent years. The Corporate Sustainability Reporting Directive (CSRD) was adopted in 2022, the first European Sustainability Reporting Standards (ESRS) in 2023, and amendments in 2025–26 postponed or narrowed some requirements. [1],[5],[6],[7] Municipalities are usually not direct reporters under the EU Corporate Sustainability Reporting Directive or Sustainable Finance Disclosure Regulation. The practical effect of recent rule changes is indirect: These rules influence the sustainability information requested from municipal companies, banks, suppliers and climate-investment programs, which can affect municipal reporting and decisions. [1],[2]

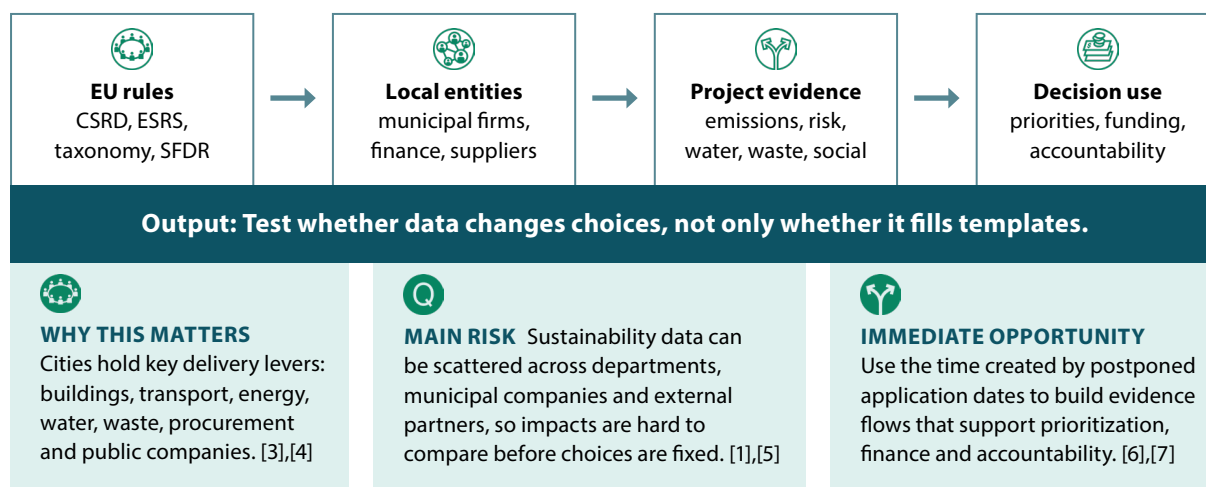
The useful question is therefore not only, “What must be reported?” but, “What information helps local decisions change priorities and funding?”



City investment decisions sit where climate plans, data systems and finance meet.

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How EU sustainability rules become municipal decision evidence



What is changing?

The core shift is from a less standardized and more fragmented reporting framework to more comparable sustainability information. The Corporate Sustainability Reporting Directive (CSRD) was adopted in 2022 and the first European Sustainability Reporting Standards (ESRS) were adopted in 2023 as part of the EU effort to make corporate sustainability data more comparable. The CSRD and ESRS define reporting language for companies; the EU taxonomy classifies environmentally sustainable activities; the Sustainable Finance Disclosure Regulation (SFDR) shapes financial-market disclosure; the Corporate Sustainability Due Diligence Directive (CSDDD) addresses due-diligence duties; and the European Green Bond Standard is a voluntary finance label. [1],[2],[5],[8],[9],[10]

Directive (EU) 2025/794, adopted in April 2025, postponed some CSRD and CSDDD application dates. Directive (EU) 2026/470 was adopted by the European Parliament and the Council on 24 February 2026 and entered into force in March 2026; it then narrowed parts of the CSRD and CSDDD scope. The European Commission adopted revised ESRS and a voluntary reporting standard for smaller undertakings in July 2026. Following scrutiny by the European Parliament and the Council, both were published in the Official Journal in September 2026. The revised ESRS apply to financial years beginning on or after 1 January 2027, with optional early application for 2026. For municipalities, the changing timetable is an opportunity to improve data ownership, interpretation and pilots while national implementation is being settled. [6],[7],[11],[12]

Timeline to watch

- 2023–2024: ESRS adopted and first CSRD reporting wave begins for former Non-Financial Reporting Directive undertakings [5]
- April 2025: Directive (EU) 2025/794 postpones some CSRD and CSDDD application dates [6]
- March 2026: Directive (EU) 2026/470 enters into force, narrowing CSRD and CSDDD scope and amending related reporting requirements [7]
- July–September 2026: The Commission adopts revised ESRS and a voluntary reporting standard in July; following scrutiny by the European Parliament and the Council, both are published in the Official Journal in September. The revised ESRS apply to financial years beginning on or after 1 January 2027, with optional early application for 2026. [11],[12]
- **By March 2027: Member states must transpose the 2026 directive into national legislation; municipalities should monitor the rules that apply in their country [7]**

How the rules reach municipalities

- **Through municipal companies.** Utilities, housing companies, transport operators or energy companies may fall under company reporting thresholds depending on legal form, size and national legislation. [1],[5]
- **Through finance.** Banks, funds and asset managers may ask for structured Environmental, Social and Governance (ESG) or taxonomy-related evidence for infrastructure finance or municipal bonds. [2],[8],[10]
- **Through procurement and supply chains.** Contractors and suppliers may need sustainability data for due diligence, reporting or green procurement requirements. [9]
- **Through investment planning.** Climate neutrality roadmaps need comparable evidence on emissions, adaptation, water, waste, biodiversity, social impacts and governance. [3],[4]

What municipalities can do now

- Map municipal entities, thresholds and reporting exposure
- Create a sustainability data catalogue across departments and companies
- Translate projects into decision evidence and evidence gaps
- Pilot whether ESRS-aligned information changes funding discussions and prioritization

Main instruments and municipal relevance

Instrument	What it does	Municipal relevance
CSRD / ESRS	Company sustainability reporting and common disclosure standards	May affect municipal companies; creates a language for local ESG evidence
EU taxonomy	Classification of environmentally sustainable economic activities	Relevant to infrastructure finance and project evidence
SFDR	Sustainability disclosure duties for financial-market participants	Can shape what banks, investors and funds ask from cities and projects
CSDDD	Corporate due-diligence duties in large company value chains	Can influence suppliers and contractors interacting with municipalities
European Green Bond Standard	Voluntary bond label and disclosure framework	Relevant when local actors use or compare green bond finance

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